



MEMORANDUM

DATE: November 7, 2018

TO: USAID/Pakistan Mission Director, Jerry Bisson

FROM: Office of Inspector General/Asia Regional Office Acting Audit Director,
Emily Gardiner /s/

SUBJECT: Financial Audit of the Municipal Services Delivery Program in Pakistan Managed by the Local Government & Rural Development Department, Government of Khyber Pakhtunkhwa, Grant No. 51, July 1, 2013, to June 30, 2015 (5-391-19-003-R)

This memorandum transmits the final audit report on the Municipal Services Delivery Program in Pakistan managed by the Local Government & Rural Development Department (LG & RDD), Government of Khyber Pakhtunkhwa. The audit was conducted by the Auditor General of Pakistan (Auditor General). The “Memorandum of Understanding Between the United States Agency for International Development and the Auditor General of Pakistan” requires that the audit be conducted in accordance with U.S. generally accepted government auditing standards (GAGAS) or the financial audit manual and the guidelines developed by the Auditor General.

The Auditor General stated that it performed its audit in accordance with international standards of supreme audit institutions issued by the International Organization of Supreme Audit Institutions (INTOSAI). The Auditor General is responsible for the enclosed auditor’s report and the conclusions expressed in it. We do not express an opinion on the LG & RDD’s fund accountability statements; the effectiveness of its internal control; or its compliance with grant terms and applicable laws and regulations.¹

¹ We reviewed the Auditor General’s report for conformity with professional reporting standards. Our desk reviews are typically performed to identify any items needing clarification or issues requiring management attention. Desk reviews are limited to review of the audit report itself and excludes review of the auditor’s supporting working papers; they are not designed to enable us to directly evaluate the quality of the audit performed.

The audit objectives were to (1) express an opinion on whether the grantee's fund accountability statements for the periods audited were presented fairly, in all material respects; (2) evaluate the grantee's internal controls; and (3) determine whether the grantee complied with grant terms and applicable laws and regulations. To answer the audit objectives, the Auditor General reviewed program documents and procedures; examined the fund accountability statements including revenues received from USAID and costs incurred during the periods; reviewed the internal control systems; and tested compliance with grant terms and applicable laws and regulations. The audit covered program revenues and costs of \$6,261,321 and \$6,261,321, respectively from July 1, 2013, to June 30, 2015.²

The Auditor General concluded that, except for the effects of the questioned costs discussed with the management, the fund accountability statements presented fairly, in all material respects, program revenues and costs incurred under the agreement for the periods audited. However, the report on the fund accountability statements and the fund accountability statements did not provide the amount of the questioned costs and its breakdown.³ In answer to our inquiry, the mission confirmed that questioned costs were not tabulated in the fund accountability statements; however, were identified with each finding in the management letter.

In the report on internal control, the Auditor General indicated that it identified material weaknesses in internal control. However, the report did not provide a description or summary of these material weaknesses.³ Further, in the report on compliance, the Auditor General indicated that it identified material instances of noncompliance. However, the report did not provide a description or summary of these material noncompliance issues.³

In its management letter, the Auditor General identified 20 issues. Based on the description of these issues, we consider 17 issues to be material instances of noncompliance,³ hence we are making a recommendation for corrective action. Further, the effects of these material noncompliance issues totaling \$1,301,519 should have been identified as questioned costs in the fund accountability statements.³ Accordingly, we are making a recommendation to the mission to determine the allowability of and recover, as appropriate, these questioned costs.⁴ The details of the material instances of noncompliance and the associated questioned costs are summarized in the following table.

² The audit covered program revenues and costs of \$4,856,514 from July 1, 2013, to June 30, 2014 and \$1,404,807 from July 1, 2014, to June 30, 2015.

³ Issues which the Auditor General should address in future audit reports to more fully comply with GAGAS 3.83-3.85, which required the auditors to institute internal quality control procedures.

⁴ Some questioned costs are covered by fixed amount reimbursement agreements (FARA) wherein USAID's reimbursement to LG & RDD is fixed in advance based upon cost estimates reviewed and approved by USAID, and made upon the physical completion of an activity, a subactivity, or a quantifiable element within an activity. The emphasis is upon reimbursement based on outputs rather than inputs or costs. However, the audit report did not indicate which of the findings are covered by FARA, and whether or not the questioned costs covered by FARA had been billed to and paid by USAID. Therefore, we are making a recommendation to determine allowability of all questioned costs.

Table I

	Description of Findings	Ineligible Costs		Unsupported Costs		Reference-Finding No.
		PKR ^a	USD	PKR	USD	
1.	Payments related to a contract awarded based on questionable bidding process	37,501,500	370,154			4.3.1 Pages 34-36
2.	Loss resulting from costs incurred for a contract that was cancelled	5,117,395	50,511			4.3.2 Pages 36-37
3.	Payments related to a contract awarded based on questionable evaluation	4,645,680	45,855			4.3.3 Pages 37-38
4.	Payment to a contractor based on rough cost estimate of work and without supporting work completion certificate			4,084,438	40,315	4.3.4 Page 38
5.	Payment of registration fee without supporting documents			1,014,552	10,014	4.3.5 Page 39
6.	Payment of secured advances without records of the receipt and issuance of materials, the contractor advance request, and the approval of advance by a competent authority			4,550,000	44,910	4.3.6 Pages 39-40
7.	Overpayment to a contractor for the purchase of machinery and equipment	13,997,290	138,159			4.3.7 Page 40
8.	Overpayment to a contractor for the purchase of accessories/allied equipment	45,150,580	445,654			4.3.8 Page 41
9.	Overpayment of project allowance of an official	560,000	5,527			4.3.9 Pages 41-42
10.	Unauthorized payment for supply of pumps in excess of the quantity provided in the bill of quantities	1,887,300	18,628			4.3.10 Pages 42-43
11.	Payment to a contractor for the installation of a tracking system, a large cost of which was not included in the original estimate, and the variation order not approved by a competent authority	10,589,929	104,527			4.3.11 Page 43
12.	Expenditures incurred for the purchase of computers and printers without supporting documents			1,139,500	11,247	4.3.12 Pages 43-44
13.	Payment for repair of vehicles within the warranty period	532,552	5,256			4.3.14 Page 45
14.	Unauthorized payment for work in excess of the quantity provided in the bill of quantities	621,396	6,133			4.3.15 Pages 45-46
15.	Unaccounted disposal of old pipes extracted from sites	-	-	-	-	4.3.16 Page 46

	Description of Findings	Ineligible Costs		Unsupported Costs		Reference-Finding No.
		PKR ^a	USD	PKR	USD	
16.	Payment to a contractor in excess of the bid cost in the contract agreement	138,955	1,372			4.3.18 Page 47
17.	Expenditures incurred for the purchase of tires and rims without adopting the required open tender system and recording in the logbook the replacement of tires	330,000	3,257			4.3.20 Pages 48-49
TOTAL		121,072,577	1,195,033	10,788,490	106,486	
TOTAL QUESTIONED COSTS		PKR 131,861,067 or \$1,301,519				

^a PKR stands for Pakistani Rupee. All PKR figures have been converted at USD 1 = PKR 101.31 (computed average exchange rate based on the revolving fund account receipts on pages 15-16 of the audit report) for the purpose of this memo. In future audit reports, the Auditor General should have stated all currency amounts in the audit report, including the report findings, in U.S. dollars. The audit report must include a note to the fund accountability statements that states the exchange rate during the audit period.

Further, for Finding 4.3.16 (Item 15 on page 3 of Table I), the whereabouts of the old pipes extracted from sites and handed over to the two offices concerned should be further verified. Thus, we are making a procedural recommendation for the mission to determine (1) whether disposal was made for old pipes; (2) the amount of sales of the old pipes not reported to USAID; and (3) the allowability and recovery, if appropriate, of these questioned revenues.

In response to our inquiry, the mission confirmed that the grantee does not have a cost-sharing contribution requirement and a USAID-authorized provisional indirect cost rate. The Auditor General reported Government of Khyber Pakhtunkhwa's share on page 3 of the report. However, the mission clarified in response to our inquiry that the contribution is voluntary and not required in the agreement. Also, some of the findings in Table I on pages 3-4 were prior audit recommendations that had not been satisfactorily addressed; they were again reported in the current period management letter and are covered by Recommendation 3 below.

To address the issues identified in the report and discussed in this memorandum, we recommend that USAID/Pakistan:

Recommendation 1. Determine the allowability of \$1,301,519 in questioned costs (\$1,195,033 ineligible and \$106,486 unsupported) as detailed in Table I on pages 3-4 of this memorandum, and recover any amount that is unallowable.

Recommendation 2. Determine (1) whether disposal was made for old pipes extracted from sites; (2) the amount of sales of the old pipes not reported to USAID; and (3) the allowability and recovery, if appropriate, of these questioned revenues, as detailed in Finding 4.3.16 on page 46 of the audit report.

Recommendation 3. Verify that the Local Government & Rural Development Department, Government of Khyber Pakhtunkhwa corrects the 17 material instances of noncompliance detailed in Table I on pages 3–4 of this memorandum.

We ask that you provide written notification of actions planned or taken to reach management decisions. We appreciate the assistance extended during the engagement.

The OIG does not routinely distribute independent public accounting reports beyond the immediate addressees because a high percentage of these reports contain information restricted from release under the Trade Secrets Act, 18 U.S.C. 1905 and Freedom of Information Act Exemption Four, 5 U.S.C. 552(b)(4) (“commercial or financial information obtained from a person that is privileged or confidential”).

Attachment: a/s